# LEGISLATIVE SERVICES AGENCY OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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## FISCAL IMPACT STATEMENT

**LS 6745 NOTE PREPARED:** Dec 31, 2009

BILL NUMBER: SB 321 BILL AMENDED:

**SUBJECT:** TRF and 1977 Fund Military Service Credit.

FIRST AUTHOR: Sen. Skinner BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL IMPACT: State & Local

 $\overline{\underline{X}}$  DEDICATED FEDERAL

## **Summary of Legislation:** This bill:

- (1) grants, under certain conditions, up to six years of service credit in the Teachers' Retirement Fund (TRF) for a member's past active duty military service;
- (2) grants, under certain circumstances, a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) up to six years of service credit for active duty military service;
- (3) provides that, except for World War II veterans, the service credit may be used only in the computation of benefits to be paid after June 30, 2012; and
- (4) provides that for World War II veterans the service credit may be used only in the computation of benefits to be paid after June 30, 2010.

Effective Date: July 1, 2010.

<u>Explanation of State Expenditures:</u> The total annual cost for crediting military service in TRF is estimated to be between \$3.5 M and \$4.5 M, while the total increase in unfunded accrued liabilities is estimated to be between \$51 M and \$78 M.

Specifying the dates for receipt of benefits until after June 30, 2012, for those eligible veterans who did not serve in WW II will result in minimal reduction in the above estimate.

Of the \$3.5 M to \$4.5 M total annual cost, an estimated \$2.9 M to \$3.4 M is attributable to the Pre-1996 Fund, which is paid from the state General Fund, and approximately \$0.6 M to \$1.1 M is attributable to the 1996 Fund, which is paid by local school corporations.

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Of the total unfunded accrued liability of \$51 M to \$78 M, approximately \$40 M to \$57 M is attributable to the Pre-1996 Fund, and approximately \$11 M to \$21 M is attributable to the 1996 Fund.

## **Background Information:**

The TRF conducted a survey to determine the potential number of retirees who might qualify for this benefit. There were 40,000 retirees reported in the July 1, 2007, valuation data. Approximately 6,300 of the retirees were born prior to 1936. Surveys were sent to 5,800 of these members, of whom, 3,000 responded to the survey.

Participants born after 1935 were not surveyed because of the absence of data to support cost calculations for participants that served after the Korean War. However, using methodology and assumptions consistent with the calculations for participants with WW II and Korean War military service, potential costs have been developed to include all participants.

Post-Korean War Military participation is assumed to range between 10% and 20% of the male TRF membership.

## **Explanation of State Revenues:**

**Explanation of Local Expenditures:** *TRF:* See *Explanation of State Expenditures* for the impact to the 1996 Plan. The 1996 Plan is funded by local school corporations with a level percent of payroll. School corporations will contribute 7.5% of payroll, effective July 1, 2010.

Specifying the dates for receipt of benefits until after June 30, 2012, for those eligible veterans who did not serve in WW II will result in minimal reduction in the above estimate.

1977 Fund: There will be an additional cost to the employer as the bill also provides that the Fund member's employer is to contribute an amount necessary to amortize the active duty military service liability over a period determined by the PERF Board, but not more than ten years. As an illustration, the actuary for the 1977 Fund has determined the total cost to the employer to purchase 2.5 years of service for one 41-year-old firefighter to be \$15,569. The annual amount to amortize this amount over ten years would be \$546. The total employer cost will depend upon the number of 1977 Fund members eligible for the military service credit, their respective ages, and the number of years granted.

Specifying the dates for receipt of benefits until after June 30, 2012, for those eligible veterans who did not serve in WW II will result in minimal reduction in the above estimate.

<u>Background Information.</u> Cities and towns with members in the 1977 Police Officers' and Firefighters' Pension and Disability Fund appropriate money from police and fire pension funds. The sources of these funds are property taxes, Motor Vehicle Excise Taxes, and Financial Institutions Taxes. The 1977 Police Officers' and Firefighters' Pension and Disability Fund is funded by a 19.5% contribution rate of payroll by the participating cities and towns.

## **Explanation of Local Revenues:**

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State Agencies Affected: TRF; Public Employees' Retirement Fund as administrators of the 1977 Fund.

<u>Local Agencies Affected:</u> School corporations with members in TRF; Cities and towns with members in the 1977 Fund.

<u>Information Sources:</u> John Dowell, Nyhart; 317-845-3580; Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317-576-1508.

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